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ABSTRACT

The Medical University of South Carolina's financial management practices and its use of public resources and the adequacy of federal and state efforts to monitor the university's use of public resources were reviewed by the U.S. General Accounting Office. Specific weaknesses in the areas of equipment, entertainment expenses, and controlled substances were identified. One of the most significant weaknesses and one that has broad implications in terms of achieving effective management, was the lack of a good internal audit capability. The weaknesses that were identified have existed for several years without effective corrective action. External controls, including both federal and state audits, have been too limited and infrequent to monitor the university's use of public resources, assess the university's accountability for federal and state funds, and assure corrective action on problems previously identified. It is recommended that the Secretary of Health and Human Services make any further federal funding contingent upon a satisfactory showing by the University that corrective action has been taken to ensure that internal controls are adequate to ensure proper accountability. GAO also recommends that the Secretary determine whether recovery should be made for that portion of the equipment that was purchased without federal approval, cannot be located, is not being used, and is being used outside the grant-supported area. (SW)

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ED207777

REPORT BY THE

Comptroller General

OF THE UNITED STATES

Better Accountability Needed At The Medical University Of South Carolina

Internal controls over financial transactions at the Medical University of South Carolina are not adequate to ensure that Federal and State funds made available to the University are properly accounted for and used for authorized purposes.

Specific weaknesses exist in controls over equipment, entertainment expenses, and controlled substances. These and other internal control weaknesses have existed for several years without effective corrective action.

The Secretary of Health and Human Services should ensure that recent actions taken or promised by the University provide proper accountability for Federal funding.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202160

The Honorable John C. Danforth, Chairman
The Honorable Lawton B. Chiles,
Ranking Minority Member
Subcommittee on Federal Spending
Practices and Open Government
Senate Committee on Governmental Affairs

Your August 14, 1980, letter requested that we direct this report, which resulted from an audit of the Medical University of South Carolina in Charleston, to your Subcommittee.

We discuss the results of our review and recommend that the Secretary of Health and Human Services take certain actions to help assure financial accountability at the University. Comments received from the University and the Department are included in the report where appropriate.

Copies of this report will be sent to the Secretary of Health and Human Services; Senators Ernest Hollings and Strom Thurmond; Congressmen Carroll Campbell, Thomas Hartnett, and L. H. Fountain; the Governor of South Carolina; and the Medical University of South Carolina.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT
TO THE CHAIRMAN, SUBCOMMITTEE
ON FEDERAL SPENDING PRACTICES
AND OPEN GOVERNMENT, SENATE
COMMITTEE ON GOVERNMENTAL AFFAIRS

BETTER ACCOUNTABILITY NEEDED AT THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

D I G E S T

In an August 14, 1980, letter, the Chairman, Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs, requested GAO to address any report on its ongoing review of selected financial transactions at the Medical University of South Carolina to that Subcommittee. (See app. I.)

GAO's review addressed allegations involving

--mismanagement of financial resources at the University,

--limited action to correct known problems, and

--limited Federal and State monitoring efforts.

Specific problems were noted in each of these areas and corrective action is needed to ensure that Federal and State funds will be properly accounted for and used for authorized purposes.

MISMANAGEMENT OF FINANCIAL RESOURCES

Internal controls in place at the University are inadequate to ensure that Federal and State funds made available to the University are properly accounted for and used for the purposes intended. As a result of allegations of mismanagement, GAO reviewed financial transactions involving equipment, entertainment, and controlled substances and noted problems in all three areas.

Detailed records for equipment purchased by the University under two projects funded, in part, by the Department of Health and Human Services (formerly the Department of Health, Education, and Welfare) could not show the location, need, or use of that equipment. Equipment purchased under these two projects totaled about $2 million. At the time of GAO's review, $322,000 of that equipment--or 15 percent--could not be

located, was reported as stolen, was unused. Other equipment valued at $216,000 was being used outside the grant-supported area, and equipment valued at $562,500 had been purchased without Federal approval. (See p. 3.)

As a result of inadequate criteria and policies for incurring entertainment expenses and accounting for such costs, it was difficult to determine the total amount spent on entertainment-related activities. Payments were made to vendors such as restaurants and hotels, as well as to University employees to reimburse them for similar charges. In addition, some departments requisitioned entertainment-type services from the University's own food service. Costs incurred as a result of each type of procurement were not accumulated in an entertainment account but were spread over several different accounts and were therefore not readily identifiable as entertainment. A number of questions were raised about whether the costs incurred were excessive or represented perquisites to University employees which appear to be prohibited by State law. (See p. 6.)

Safeguards over controlled substances could not ensure that (1) drugs are properly dispensed and recorded and (2) those drugs returned to the pharmacy for disposal are properly accounted for. (See p. 8.)

LIMITED ACTION TO CORRECT KNOWN PROBLEMS

The problems GAO noted in this review are not new to the University's administration. The University was first advised of serious weaknesses in financial management controls as far back as 1972.

For example, beginning in 1972 the independent public accountant for the University has noted a number of management weaknesses in control over property. In 1973 he recommended that the administration develop a complete property system to identify and tag equipment and to record additions, deletions, and transfers.

A report by the State Auditor for the period July 1, 1972, through June 30, 1974, identified

several areas that represented weaknesses in managerial control and that did not comply with either State law or administrative policy. Recommendations were made to improve internal audit, data processing, purchasing procedures and policies, inventories, and property control. The same basic problems identified by the State Auditor in 1974 relating to inadequate control over equipment still exist. In addition, the University has not developed an effective internal audit capability. (See p. 11.)

A report issued by the State of South Carolina Legislative Audit Council in March 1979 cited a need for more accountability and better management principles. The Council reported a lack of adequate action to correct University management weaknesses identified in the past. (See p. 12.)

In May 1979, the State Bureau of Drug Control inspected safeguards over controlled substances and reported serious deficiencies and violations of controlled substances regulations.

The University has not, until recently, taken effective action to resolve the problems. However, subsequent to the GAO review, the University did provide a listing of positive actions taken or to be taken with regard to the issues raised by GAO as well as by other groups maintaining its activities. It is too early to assess whether the revised policies and procedures will resolve the problems if effectively implemented. (See app. II.)

LIMITED FEDERAL AND STATE MONITORING

External controls, including both Federal and State audits have been too limited and infrequent to (1) monitor the University's use of public resources, (2) assess the University's accountability for Federal and State funds, and (3) assure corrective action on problems previously identified.

During the period fiscal 1971 through 1979, the only comprehensive Federal audit was made by the Department of Health and Human Services for the period July 1, 1970, through June 30, 1973. (See p. 10.)

During this same period the State Auditor also made a comprehensive audit for the period fiscal 1973 through 1974. (See p. 11.)

RECOMMENDATIONS

In view of the recognized weaknesses in internal controls that have existed at the University for a long time and in view of the lack of any recent Department audit, GAO recommends that the Secretary of Health and Human Services make any further Federal funding contingent upon a satisfactory showing by the University that corrective action has been taken to ensure that internal controls are adequate to ensure proper accountability.

GAO also recommends that the Secretary determine whether recovery should be made for that portion of the equipment which (1) was purchased without Federal approval, (2) cannot be located, (3) is not being used, and (4) is being used outside the grant-supported area.

AGENCY COMMENTS

The Department concurred with both recommendations and plans to visit the University to determine the action needed. (See app. III.)

The University provided a list of actions already taken or being taken to address the problems identified. (See app. IV.)

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CHAPTER 1

INTRODUCTION

In an August 14, 1980, letter, the Chairman, Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs, requested that we direct any report from our then ongoing review at the Medical University of South Carolina to that Subcommittee. Our review was initiated in response to allegations our Special Task Force for the Prevention of Fraud and Abuse received. These allegations concerned mismanagement of financial resources, limited action to correct major problems previously identified, and limited State and Federal monitoring efforts.

The Medical University of South Carolina is a State-supported university. In addition to annual State appropriations, the University receives revenues from Federal grants and contracts, as well as revenues from sales and services of the various departments.

For the period June 30, 1974, to June 30, 1979--the latest year for which financial reports are available--University revenues increased from $61.5 million to $108.7 million. Federal funding in the form of contracts and grants increased from $6.9 million to $10.3 million during this same period. The following table shows the relationship between Federal funding and total revenues for each year.

	Total	Federal	Percentage of total
1974	$ 61,562,730	$ 6,921,729	11
1975	77,462,618	12,452,247	16
1976	79,984,837	11,324,184	14
1977	88,277,991	9,865,510	11
1978	96,618,077	8,827,711	9
1979	108,728,426	10,308,139	9

OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary objectives were to independently evaluate (1) the University's financial management practices and its use of public resources and (2) the adequacy of Federal and State efforts to monitor the University's use of public resources. Although we were primarily concerned with control over and accountability for Federal funds, the activities we examined involved State funds as well.

We coordinated our efforts with those of State auditors and other State officials, who shared our interest in achieving a more comprehensive audit. We interviewed responsible officials of the University and examined relevant records regarding policies and procedures to gain an understanding of the internal controls in place. We interviewed responsible officials of the Department of Health and Human Services to obtain information on the extent of Federal funding and monitoring. We also interviewed State officials responsible for auditing and monitoring activities of the University.

Our review did not include a comprehensive examination of the use of all Federal funds and grants involving the University. We did, however, examine most University functions associated with the use of Federal funds. We examined internal controls over controlled substances, equipment, and entertainment-related expenses purchased with a number of different funds.

We made maximum use of audit reports by Federal and South Carolina State agencies and the University's regular certified public accountants. We also reached conclusions about the overall effectiveness of these external auditing efforts as well as the University's own internal audit efforts.

As part of our extended audit procedures, we obtained and analyzed the University's check disbursement listings and general ledger computer tapes. These items had been obtained initially by the State Reorganization Commission for its use in investigating the University's financial management. We made extensive use of the check listings and general ledger tapes to assess the University's controls over the purchasing of equipment and entertainment-related expenses.

For purposes of testing controls over equipment, our review was limited to two construction projects funded by the Department of Health and Human Services.

We used the general ledger tapes to identify vendors providing services that appeared to be entertainment in nature. We used payments to these vendors to establish a universe from which we selected a sample. This sample was supplemented by another sample of payments to individuals that did not appear on the vendor list.

In addition, we interviewed a number of informants about allegations of improprieties at the University. State drug control employees assisted us in analyzing safeguards over controlled substances.

CHAPTER 2

BETTER INTERNAL CONTROLS NEEDED TO AVOID MISMANAGEMENT OF FINANCIAL RESOURCES

Our review showed that internal controls at the University are inadequate to safeguard University assets and to ensure effective, efficient, and economical use of financial resources. The internal audit function at the University had not been developed sufficiently to aid in correcting longstanding problems.

We looked specifically at controls over equipment, entertainment expenses, and controlled substances and found serious weaknesses in each case. We also examined budget and accounting controls over certain Federal grants to the University and found several problems.

INADEQUATE CONTROLS OVER EQUIPMENT

Our review of controls over equipment acquired for use under two projects funded in part by the Department of Health and Human Services showed serious weaknesses that resulted in a failure to effectively safeguard and use assets. Equipment purchased under these two projects totaled $2,084,345. At the time of our audit we found

--equipment costing $286,573 could not be located,

--equipment costing $766 was reported stolen,

--equipment costing $35,034 was stored,

--equipment costing $562,567 had been purchased without Federal approval, and

--equipment costing $216,026 was being used outside of the grant-supported area.

In a February 13, 1981, letter, the South Carolina Department of Health and Environmental Control advised the Department of Health and Human Services that it assumed the equipment costing $562,000 had been approved. The issue is still unresolved.

We were subsequently able to locate most of the missing equipment but equipment costing about $27,000 could still not be located and other equipment costing about $30,000 was in storage and not being used.

We noted specific weaknesses that contributed to the lack of control over equipment:

--Failure to maintain accurate detailed property records showing correct location and use of equipment.

--Failure to accurately record additions, deletions, and transfers between departments.

--Failure to take a periodic physical inventory to verify the detailed property records and reconcile them with the general ledger balances.

As a result of poor controls over the equipment inventory, the University was unable either to effectively determine the availability of equipment and existing needs or to properly evaluate requests for new acquisitions.

The problems noted in our review are not new. Despite recurring identification of similar problems as far back as 1972, the University administration had not developed adequate internal controls or the in-house staff capabilities needed to inventory and safeguard its major moveable equipment. The administration had not taken effective action to meet requirements of State law and Federal regulations concerning prudent property management. As a result of lack of accountability, equipment was susceptible to being lost, misplaced, or stolen.

The following cases demonstrate the adverse results of these weaknesses:

--In recent years, the University's administration deducted an estimated $5.1 million from its net investment in equipment account to compensate for unidentified equipment that had been retired, worn out, transferred, or traded in.

--State auditors had difficulty locating much of the equipment. It appears that the State auditors may disclaim an opinion on the accuracy of equipment accounts because of the condition of the records and problems encountered with controls.

--Physical inventory efforts, which were ineffective before 1979, have recently documented the internal control weaknesses by identifying specific equipment costing about $3.9 million as missing or misplaced as of July 3, 1980. As of October 1980, the University's efforts had reduced the amount to about $3.3 million. This included lost or missing equipment costing about $2.5 million and equipment costing about $860,000 which had been disposed of, traded, sold, stolen, or transferred as early as 1974.

--Inventory also identified equipment, with an estimated cost of $4.4 million, as on hand without updated inventory control records to identify the items or their location. Some of these items may be part of the $3.3 million discussed above.

--Additional equipment, costing over $300,000 and purchased under various construction projects--including several federally funded projects--had not been located. University officials have advised that all but $7,000 of this has been located.

The lack of effective periodic physical inventories and inadequate internal controls can adversely affect the reasonableness and accuracy of equipment-related costs used for financial statement purposes.

We believe that the Department of Health and Human Services, as the cognizant Federal audit agency, should look at the use of equipment purchased with Federal funds in an effort to determine whether recovery should be made for equipment that (1) was purchased without Federal approval, (2) cannot be located, (3) is being stored without use, or (4) is being used outside the grant-supported area.

University taking action

In response to our review of property management, the University advised us they were taking steps to

--establish an objective of developing a model property management system that would meet all State and Federal requirements;

--expedite reconciliation of the physical inventory and financial property records by February 28, 1981;

--improve detailed property records to meet Federal requirements for information on cost, the percentage of Federal participation, and utilization;

--expedite by more than 1 year the process of obtaining equipment utilization information;

--improve the physical security of equipment;

--increase control over interdepartmental equipment transfers;

--obtain Federal approval of equipment transfers to other departments and outside organizations;

--locate and identify equipment charged to the physical plant for custodianship;

--analyze and clarify the records of equipment considered lost, misplaced, retired, or transferred;

--revise equipment and property policies to assure annual physical inventories and other internal controls; and

--strengthen controls over major equipment purchases.

WEAK CONTROLS RESULT IN QUESTIONABLE ENTERTAINMENT EXPENSES

Our review showed that internal controls over entertainment-related expenses were inadequate and therefore we could not readily identify (1) the total costs incurred for such purposes, (2) whether the payments were justifiable, and (3) whether the amounts paid were reasonable. We sampled 90 payments that appeared to have been for entertainment purposes and found that 54 of these payments were, in fact, for entertainment. In 48 of these 54 cases serious doubts exist about whether the cost was a valid expense to be charged to the University, whether the amounts paid were reasonable, and whether the disbursement was properly authorized and supported.

It was impossible to determine the total cost incurred for entertainment expenses because weaknesses in accounting controls permitted entertainment costs to be accounted for in several different expense accounts rather than in an established entertainment account. Many of the expense accounts charged were not readily identifiable as entertainment accounts. For example, some of the accounts charged were other contractual services, supplies, conference costs, and other supplies.

Entertainment expenses could be incurred in any one of three ways. The University could directly pay a vendor such as a hotel, restaurant, caterer, or resort. Employees could be paid and they would then pay the vendor, or employees could be reimbursed for costs they incurred. Entertainment services could also be procured from the University's own food service. Under each of these methods, approved purchase requisitions were required in advance of the procurement. However, our review showed that this requirement was not always met, and the fact that entertainment services were obtained in three separate ways without always obtaining prior approval compounded the problem by misclassifying the expenditures in several different accounts.

Our sample identified 48 payments, totaling $7,180.98, as questionable:

--25 payments represented perquisites to employees, which appear to be prohibited by State law. Some of these payments were for luncheons, dinners, parties, and events at hotels, inns, and restaurants in the Charleston area.

--11 payments were questionable because they were (1) authorized and approved after the services had been provided, (2) did not have an approved purchase order, or (3) were charged to the wrong expense code.

--12 payments did not have sufficent documentation in the vendor package to determine the allowability of the expense.

For example, a $208.70 payment was made on July 31, 1979, for a dinner meeting attended by three hospital residents and two of their wives. According to the supporting voucher package, the purpose of this meeting was to discuss future plans for the microvascular laboratory. The payment averaged about $42 per person, including $73 for alcoholic beverages.

Between July 1, 1976, and September 30, 1979, about $5,000 was paid from University funds for bulk purchases from alcoholic beverage distributors. Although the University established a policy in April 1980 which prohibits parties to honor retirement or other occasions, some of these questionable functions would be allowable. For example, the University considers a $714 payment for two receptions attended by new faculty, department chairmen, and staff to be an allowable expense. From various sources, we were able to identify 22 retirement and dinner parties, receptions, and similar functions costing $15,906. These functions were held between July 1, 1976, and September 30, 1979. We noted no retirement parties after March 1979.

In addition, payments were made for less expensive items including coffee, barbecue sandwiches, groceries, and donations.

The practice of spreading entertainment expenses over several expense codes precludes adequate budgeting, controlling, and reporting of similar expenses. Such a procedure also involves two interrelated problems: incorrect and inconsistent classification of similar expenses among several codes, and inclusion of dissimilar expenses in the same code. We identified payments for identical or similar purposes charged to different expenditure codes. For example, dinners for prospective employees were charged to the Supplies code in fiscal 1977, to Other Contractual Services in December 1978, and to Entertainment in March 1979.

The University's practice of charging dissimilar expenses to the same expense code confuses the total amount spent on specific functions. This practice makes determining total entertainment expenses difficult and has the same effect on other routine expenses. A prime example involves charges to the Other Contractual Services expense code. The State's instructions cite examples of payments that should be charged to this code including catering, janitorial services, and laundry. In fact, as described earlier, charges other than these were made to this account.

The University has issued new guidelines as of January 14, 1981, which identify the class codes and should eliminate the problem of inconsistencies.

Although our review clearly demonstrates that controls over expenditures for entertainment-related expenses are inadequate and in need of improvement, we were unable to determine how much, if

any, of the payments were made from Federal funds. However, the interests of the State, the Federal Government, and the University are inextricably tied together in carrying out the goals of the University and cannot be isolated. Different levels of government, both State and Federal, share common interests in the program. Therefore, we believe the accounting system and the related controls should meet acceptable standards and be designed to satisfy both the common and disparate accountability interests of each contributing governmental entity.

Subsequent to our review, the University issued new expenditure policies on January 14, 1981, which were designed to govern expenditures for entertainment, recruitment, conference refreshments, and alcoholic beverages. These policies, if properly implemented, should correct the control weaknesses noted during our review.

INADEQUATE SAFEGUARDS OVER CONTROLLED SUBSTANCES

We reviewed internal controls over functions at the University related to controlled substances. This included requisitioning, ordering, controlling receipts on delivery, accounts payable, physical security, dispensing, and controls over drugs awaiting disposal. For the most part we found that the University had taken action in most all of the areas to correct weaknesses the State Bureau of Drug Control identified in its 1979 review.

However, we found that overall accountability for controlled substances was inadequate because pharmacy and nursing personnel had not established and maintained adequate records to verify (1) the amounts of controlled substances awaiting disposal and (2) the administration of controlled substances to hospital patients.

When nursing stations return drugs to the pharmacy for disposal because of spoilage or partial use, good internal control requires that a separate record be maintained to verify the amounts disposed of. Our review showed that although nursing stations submitted supporting documentation to the pharmacy when the drugs were returned, they normally failed to keep confirmation copies on file. As a result, we were unable to verify that the drugs on hand in the pharmacy awaiting disposal were properly accounted for and represented all drugs that had been returned. Such verification is essential to providing total accountability and avoiding loss through theft. The problem of verification was compounded by the pharmacy's failure to properly file the supporting documentation controlling each drug.

Pharmacy and nursing personnel generally agreed with our finding that nursing personnel normally were not retaining copies of requisition forms used to return controlled substances to the pharmacy for disposal. University policies did not require this. However, to assure an independent means of verifying the quantity of

controlled substances awaiting disposal, University officials agreed to require that the forms be retained.

We attempted to trace controlled substances shown on requisition forms as having been returned to the pharmacy for disposal by selecting a sample of disposition sheets and comparing it with patient's medical records. In the company of the University drug inspector, we examined 66 disposition sheets, which were known to have some discrepancies, showing 135 doses and found that 30 of the doses were not supported by entries in the medical administration record, by nursing notes, or by any other reasonable indication that the dose had been administered. Because our sample was not randomly taken, it cannot be considered representative of the total universe.

We discussed results of our sample with University officials who acknowledged that any error rate is unacceptable but advised that the rate at the University was comparable to averages found at most teaching hospitals.

As a result of our audit, the University advised that it has taken action to require retention of appropriate requisition forms.

CHAPTER 3

ACTION NEEDED TO CORRECT LONGSTANDING PROBLEMS IN INTERNAL CONTROLS

The weaknesses noted during our review are not new. Since at least 1972, the University has been alerted to these and other problems by its independent public accountant, its own internal audit staff, the State Auditor, the State Legislative Audit Council, the State Bureau of Drug Control, and the Department of Health and Human Services.

Specific weaknesses in financial management demonstrate a need for prompt action to strengthen internal controls and provide accountability. Criticisms from various groups have been addressed to almost every facet of the University's financial operations including, but not limited to, such activities as

--supplies inventory,

--accounts payable,

--purchasing,

--property inventory,

--controls over narcotics,

--entertainment expenses,

--collection activities, and

--budgeting and funding.

Although the University was well aware of the problems that existed and generally concurred with the recommendations made by the various audit groups, it failed to take effective action to strengthen internal controls and correct all the weaknesses noted. The activities of various other groups monitoring the University are discussed in the following sections of this report.

DEPARTMENT OF HEALTH AND HUMAN SERVICES AUDIT LIMITED

Although the Department of Health and Human Services has audit cognizance for the University and has made a few audits of specific contracts, the only comprehensive audit made was for the period July 1, 1970, through June 30, 1973. The audit report, issued in March 1975, addressed such issues as direct labor being charged to grants, labor cost distribution, and failure to follow established travel procedures.

NEED TO ESTABLISH EFFECTIVE INTERNAL AUDIT CAPABILITY

The University's internal audit function has not been an effective means of improving internal controls primarily because the administration has not developed sufficient audit capabilities. Weaknesses include a lack of auditors, audit schedules, procedures, and formal written reporting policies. Adequate audit capabilities must be developed to ensure the establishment of sound internal controls.

As early as 1975 the University's internal audit staff reported problems with respect to general stores inventory and equipment inventory. However, these reports did not make recommendations for correcting either problem. In March 1979, equipment control was identified as a continuing problem by the Legislative Audit Council and was confirmed in our review.

External auditors had previously recommended strengthening internal audit capabilities. Both the State Auditor and the University's independent auditors made similar recommendations. The State Auditor's recommendations included establishing written programs and procedures, requiring more auditing effort as opposed to normal accounting work which should be done by others, requiring written audit reports, and reporting to someone other than the Vice President for Administration and Finance, who is responsible for the functions audited and the internal auditors.

Our review confirmed the current need for these improvements. The internal audit staff was limited to only three auditors and their available audit time was restricted. In addition to their audit duties, they performed work normally assigned to accountants, such as reconciling the bank accounts, and two staff members were assigned to unrelated work for extensive periods.

The internal auditors also said they had no schedule of audits made or planned, no policy requiring written reports, and normally wrote only annual summary letters to the Vice President for Finance. They said the policy was to notify the Vice President of discrepancies and to make verbal recommendations.

Because of the internal auditing weaknesses, particularly the absence of written reports, the Board of Trustees, which has ultimate responsibility for University affairs, had little assurance of the University administration's accountability.

STATE AUDITOR CITED CONTROL WEAKNESSES

The most recent report the State Auditor issued as a result of a comprehensive audit covered the period July 1, 1972, through June 30, 1974. This report identified several areas that reflected weaknesses in managerial control and that did not comply with State law or administrative policy. The report specifically recommended

a strong internal audit department, controls over the computer, strict adherence to procurement procedures, and proper control over old and obsolete equipment.

Except for this one comprehensive audit, the State Auditor has generally relied on financial audits by a public accounting firm since 1968. The accounting firm repeatedly identified weaknesses in internal control over equipment and other problems, and the State's own audit identified problems in equipment control, internal review, and other areas.

Since 1978 the State Auditor has increased the audit staff from 12 to 30 auditors, and the auditors have taken steps to deal with some of the specific problems at the University. In early 1977, after University personnel discovered that an accounts payable clerk and outside associates had embezzled $187,000, the State auditors reviewed controls over disbursements and accounts payable and identified major weaknesses. This led to the prosecution and conviction of the perpetrators.

Just after a separate audit of the University by the Legislative Audit Council of the South Carolina General Assembly in March 1979, the State Auditor began a review of selected aspects of University operations. As of February 1981, the State Auditor had not formally reported his findings.

The State Auditor also has accepted responsibility for performing the University's financial audit for fiscal 1980; thus, the State Auditor will replace the public accounting firm that has been used in the past.

SPECIAL STUDY BY THE SOUTH CAROLINA LEGISLATIVE AUDIT COUNCIL

As a result of certain allegations, the South Carolina Legislature requested the Legislative Audit Council, in September 1977, to undertake a comprehensive audit of the University's operations.

The Legislative Audit Council identified control weaknesses both at the University and in the abilities of State agencies to monitor University operations. The Council reported in March 1979 that the University had been allowed total freedom in allocating its funds, and it needed to be more accountable to the General Assembly and more responsive to laws, regulations, and good management principles. The March 1979 audit report stated that the Council found numerous examples of poor management decisions to support that conclusion. The Council reported a lack of adequate action to correct University management weaknesses identified in the past. The report also cited State control weaknesses over capital improvement projects, bond accountability, indigent health care, safeguards over controlled substances, and the benefits or perquisities allowed for State employees. The Council subsequently reported

problems in State budget and expenditure control processes which had prevented careful consideration of State agencies' budget requests and control over expenditures.

STATE DRUG CONTROL MONITORING EFFORTS HAVE BEEN LIMITED

According to State agency reports, State efforts have not been adequate to meet requirements for monitoring the safeguards over controlled substances exercised by about 5,700 registrants, including State facilities such as the Medical University of South Carolina. In response to the Legislative Audit Council's reported findings on the University's lack of control over narcotics and other controlled substances, the State Department of Health and Environmental Control commented that:

> "Because of the vast size and record keeping provisions attendant to the larger state-owned facilities, the Bureau has not been justifiably able to commit the total resources of the Bureau to these State facilities for the extended period of time that it would necessitate to perform a proper inspection and audit."

The Department explained that its Bureau of Drug Control employed only eight inspectors to make about 750 inspections annually, covering 5,700 controlled substances registrants.

The Bureau acknowledged "that it cannot meet its statutory mandate" to enforce inspection and audit portions of the South Carolina Controlled Substances Act and to inspect each registrant not less than once every 3 years. The Bureau stated simply that the General Assembly had not provided sufficient funds to carry out the statutory mandate.

The Bureau did inspect controls at the Medical University of South Carolina in May 1979 at the request of the University due to the Legislative Audit Council's March 1979 audit report. The inspection report states that

> "* * * the deficiencies and violation (of controlled substances regulations) are as serious or are more serious than those for which other registrants have been criminally prosecuted or have suffered suspension of controlled substances registrations."

However, the Bureau reported that suspending the University's registration would not be in the public interest.

NEED FOR ACTION TO IMPROVE ACCOUNTABILITY FOR USING PUBLIC RESOURCES

Despite valid audit recommendations, the University administration has not, until recently, effectively resolved longstanding

problems. The University delayed implementing recommendations to develop an effective property control system necessary to account for major moveable equipment. The recommendations were made as early as 1972 and as late as 1979 by independent auditors, the State Auditor, and the Legislative Audit Council. The Council's March 1979 report cited the lack of emphasis by high level management as one reason for its finding that much of the equipment in a sample test was not adequately controlled and could not be located. Our review confirmed that the University had been very slow to accept responsibility and accountability for moveable equipment because the administration had not

--developed in-house capabilities needed for adequate inventory and financial control of all equipment, including items purchased in part with Federal funds;

--conducted a complete physical inventory of major moveable equipment and reconciled the results;

--established adequate controls over purchasing and accounting for equipment additions and deletions;

--established safeguards to protect equipment from loss, theft, and improper use; and

--established controls to assure that equipment purchased with Federal funds was needed and remained in the grant-supported area.

To show the corrective actions taken, the University provided a chronology of events concerning property control efforts. In our view, the chronology demonstrates ineffective action and relatively long delays in establishing property controls. For example, an entry for January 1976 states that, due to a lack of staff, on-site inventories were not taken. The Vice President for Administration and Finance approved hiring two additional clerks for the Property Office in October 1976, but they were not hired until January 1977.

Although the University planned to have its in-house inventory control system operational by July 1976, physical inventory efforts in 1976 were not successful. As of January 1977, the plan was to begin departmental on-site inventories and reconcile the actual inventory to the data base provided by the contractor. Inventories were completed for some departments, but results were not accurate because without updated records, equipment on hand was not identified as additions to the departmental listings. As a result, it was not until September 1978 that the University provided computer lists to the departments showing their custody of major moveable equipment.

Until 1979, the University's physical inventory efforts were limited. The property manager said that with only five staff

members and 68 buildings, physical inventory efforts were based on listings sent to each department for checking. He said the procedure was not effective because department personnel would not return some listings and would not tag some equipment. The Director of Procurement and Property Management said that the administration did not increase the property control section to 11 personnel until after the Legislative Audit Council's critical report in March 1979.

CONCLUSIONS AND RECOMMENDATIONS

Internal controls over financial management activities of the Medical University of South Carolina are so inadequate they cannot assure that Federal and State funds are properly accounted for, adequately protected, and used for authorized purposes. Our review identified specific weaknesses in the areas of equipment, entertainment expenses, and controlled substances. Audits performed by other groups such as the State Auditor, an independent public accountant, the South Carolina Legislative Audit Council, the State Bureau of Drug Control, and the University's own internal audit staff lead us to believe that weaknesses exist in other areas of financial management as well.

One of the most significant weaknesses noted and one which has broad implications in terms of achieving effective management, was the lack of a good internal audit capability.

Many of the weaknesses noted, particularly those relating to entertainment expenses and property controls, have existed since at least 1972. Even though the University was well aware of the problems and concurred with most of the recommendations made, it was either unwilling or unable to take prompt and effective corrective action.

Subsequent to our audit, the University has taken or has promised to take corrective action which it believes will address some of the weaknesses identified.

While it is too early to determine what impact these changes will ultimately have, we believe that if properly implemented, they will strengthen internal controls over financial transactions. In the meantime, however, we believe the magnitude of the weaknesses that exist today and that have been known to exist for a long time, is so great that serious questions can be raised about whether Federal funds will be adequately protected and used for authorized purposes.

Because the University has been very slow in implementing corrective action, the weaknesses in controls over financial transactions continue to exist. We believe a greater effort is required on the part of both the State and Federal audit agencies to monitor the University's activities to ensure that promised corrective action is properly implemented and does result in effective internal controls.

Accordingly, we recommend that the Secretary of Health and Human Services direct that any further Federal funding be contingent upon a showing by the University that corrective action has been taken to make sure internal controls are adequate to ensure proper accountability of those funds.

We also recommend that the Secretary determine whether recovery should be made for that portion of the equipment which (1) was purchased without Federal approval, (2) cannot be located, (3) is not being used, and (4) is being used outside the grant-supported area.

AGENCY COMMENTS AND OUR EVALUATION

In a February 20, 1981, letter, the Acting Inspector General provided comments of the Department of Health and Human Services on a draft of this report. (See app. III.) The Department concurred with both of our recommendations. The nature of the Department's action will depend upon information it develops during a visit to the site which will include an assessment of action, if any, that the University has already taken.

The President of the University commented on our draft report in a February 20, 1981, letter and listed a number of actions that have been taken or are being taken to address the problems identified. (See app. IV.)

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COMMITTEE ON
GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FEDERAL SPENDING PRACTICES
AND OPEN GOVERNMENT
(202) 224-8211
WASHINGTON, D.C. 20510

August 14, 1980

The Honorable Elmer Staats
Comptroller General of the
United States
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Elmer,

Some time ago, the subcommittee staff was approached by a prospective source who made a series of allegations concerning the financial practices of the Medical University of South Carolina. We had referred the source to you.

Now, we are aware that your auditors have looked into his charges and, apparently, have substantiated some of the informant's allegations. Accordingly, I would request that you direct any report resulting from your review to this subcommittee, and that you be prepared to testify before the subcommittee by mid October.

Thank you for your cooperation and assistance in this matter. Any questions may be directed to Mr. Peter Roman on 224-4067.

Sincerely,

Lawton Chiles

LAWTON CHILES
Chairman

LC/prd

APPENDIX II

MEDICAL UNIVERSITY OF SOUTH CAROLINA

POSITIVE ACTIONS TAKEN

AS A RESULT OF:

1. Legislative Audit Council Report - March 1979
2. DHEC Drug Audit - July 1979
3. State Reorganization Commission Draft Report - November 1979
4. GAO Draft Report - November 1980

January, 1981

APPENDIX II

I. Drug Control:

A. A two-part form, to serve as a receipt for their uses when returning controlled substances was developed. During the GAO audit it was noted the form was not being used properly. It was redesigned to a three-part form, one copy of which comes to the Controlled Substances Inspector, who now has a record of what should be in the destruction box.

B. Pharmacy stock that formerly was divided into active and reserve was all converted to active stock. Upon receipt all active stock is identified and proper control records immediately established.

C. The major portion of the hospital pharmacy was renovated to provide limited access to the controlled substances area and to permit the development of a new record system, cross referenced, in an area immediately adjacent to the pharmacy.

D. All controlled substances in the hospital were reinventoried to include the stock held on each nursing station.

E. All controlled substances were separated, physically, as to the license the drugs were purchased under. This has eliminated the comingling of drugs purchased under different license numbers.

F. New policy and procedures for the ordering, receipt, storage, and disposition of controlled substances were established for hospital pharmacy.

G. All departments handling controlled substances on the Medical University of South Carolina campus, other than the hospital pharmacy were identified. A policy and procedure manual for the departmental handling of controlled substances was established. Specific individuals in each department responsible for carrying out these procedures were named.

H. A Director of Controlled Substances for the entire Medical University was named.

I. A Controlled Substances Inspector was employed.

J. All practitioners on the Medical University campus were required to register with the Controlled Substances Inspector indicating all State and Federal licenses held. For the first time a single source could identify who was and was not qualified to write for controlled substances.

K. All print shops in the immediate Charleston area were notified not to honor any requests for the printing of prescription blanks with a Medical University of South Carolina address on it. A standard University-wide prescription blank was established as the one and only official form for the Medical University of South Carolina prescriptions.

L. A process of validating prescriptions through the use of imprinting personalized cards on the prescription was established. All pharmacies

in the state were informed of this procedure and the process to use when needing prescription information. This also permits immediate notification of all prescription outlets when a validating card is lost.

M. Inspections of nursing stations, departments, and the pharmacy was begun by the Controlled Substances Inspector.

N. Each department, outside the hospital pharmacy, was individually licensed according to the use of the controlled substances in their possession.

O. Based upon the individual departmental licenses a central, computerized readily retrievable record system for all controlled substances purchased within a fiscal year was developed. It was implemented on July 1, 1980.

P. All pharmaceutical firms and wholesale drug houses were informed not to ship any controlled substances to any area of the Medical University except through the hospital pharmacy. Any firm providing a University faculty member with controlled substances must send a copy of the signed form to the Controlled Substances Inspector to alert us to its being on campus.

Q. The research approval form was modified to include a section about the use of controlled substances. Where the use is beyond normal anesthetic needs, prior to the grant award, a review of the security and storage needs for the grant is made.

R. Because of the departmental needs it was noted that no commercial controlled substances cabinet, especially for refrigerated drugs, met DEA or BDC standards. Working with these two agencies the University has designed a new cabinet to meet security needs for all controlled substances. These cabinets are presently on order.

S. Policy changes regarding what constitutes emergency situations were established by the hospital Executive Committee and each practitioner notified, as well as nurses, as to the proper procedure to follow when such situations arise.

T. New out-patient methods for recording dispensing of controlled substances were established.

U. New procedures for recording returned controlled substances were established for the pharmacy and from the pharmacy to a pharmaceutical manufacturer.

V. A single source for purchasing almost all controlled substances were established. By this process a series of codes was implemented which prevents individuals or departments from ordering and receiving controlled substances on the Medical University of South Carolina campus other than through the hospital pharmacy. The codes used identify the license to a department which is then identifiable back to our central record keeping system.

TO BE DONE

W. Because of the peculiar needs of the anesthesia and operating room areas a totally different set of policies and procedures are being established. A pharmacy technician has been assigned to the area. We anticipate these procedures will be ready by April 1, 1981 with a three-month trial, in a limited area, to follow. Total implementation should occur around July 1, 1981.

X. We anticipate the new controlled substances cabinets to be on board about January 31, 1981. Installation will be accomplished by our Physical Plant in areas where security of this type is necessary.

Y. New forms to better control bulk chemicals, which are controlled substances, are in process. These will better identify the need, use, and disposition for any purpose in the research area.

Z. After all the above are in place a review of their impact on drugs for destruction will be made to determine whether additional changes in this area are needed.

II. PROPERTY:

A. Early Development of Property Office:

- Office formed late 1974.

- Physical tagging of equipment began 1975 by Property Office (as opposed to outside contractor).

- 1977 staff increased from two to four members to meet the required accounting for current equipment acquisitions.

- 1979 - Decision made to increase staff to address verification of pre-1975 equipment purchases and fully proceduralize the accountability for all major movable equipment.

B. Current Property Management Program:

Staff:

Beginning in July 1979, the Property Office was staffed by 11 property specialists (increased from four in 1977).

Physical Inventory:

A physical inventory of all University buildings began in July 1979, and was completed December 23, 1980. The inventory covered all University affiliated buildings, i.e., V.A. Hospital, Charleston County Hospital, Roper Hospital, The Citadel, and encompassed the

identification of approximately 50,000 major movable equipment items valued at from $40-50 million.

Reconciliation Process:

Upon the completion of the physical inventory, the process reconciling historical, financial, inventory records with the recently verified physical inventory records began. This process will be completed by February 28, 1981.

Resulting Property Management Program:

After the completion of the physical inventory and the reconciliation process, the Medical University of South Carolina Property Office will assure compliance with existing state and federal property management regulations.

C. This program will maintain records which will provide the following information:

1. Description of equipment using appropriate identification data.
2. Source of funding and title status (percent of federal funds).
3. Acquisition date and costs.
4. Location, use, and condition.
5. Verification of required periodic physical inventories.
6. Ultimate disposition.

III. ENTERTAINMENT:

A. Established revised guidelines for recruitment and entertainment effective January 15, 1981. Policies will be incorporated in the Medical University

of South Carolina Administrative Procedures Manual in January of 1981.

B. Defined conference costs or "working meal" situations to prevent perquisites.

C. Outlined the Medical University of South Carolina policy on alcoholic beverage purchases.

D. Restricted procurement methods (prior approval and documentation for each emergency situation).

E. Prohibition of the use of "Other Contractual Services" as a Class Code for entertainment, recruitment and conference refreshments.

F. Prohibition of retirement parties, donations or contributions, and purchases of memorial flowers.

G. Strengthened documentation requirements including names of persons attending, purpose of expenditure, etc.

IV. USE OF SPECIAL FUNDS:

A. Defined special funds ("L" and "C").

B. Updating of Account Memoranda for "L" & "C" by July, 1981 to include purposes and/or restrictions as well as authorized signatures.

C. Development of written policy governing objectives, expenditures

criteria, and appropriate class codes. (Previous policies were not written).

D. Commitment to study revision of report format in the MIS to include a computerized budget for these funds. (If revised - implementation date of July, 1981).

E. Revise the method of budgeting and controlling special funds, July 1, 1981.

V. DENTAL GOLD

A. Developed restrictive policy on sale of gold. (This limits sale of gold).

B. Transferred all gold to bank vault for safe-keeping.

VI. INTERNAL AUDIT WEAKNESSES

A. Developed plan for Internal Audit - (Director and Staffing pattern).

B. Developed standard system and report requirements.

C. Defined organizational responsibilities.

VII. HEALTH SCIENCES FOUNDATION

A. Appointed a Committee to review - "Control" aspects of foundation (New by-laws adopted in December call for a Board that is more removed

from the Medical University of South Carolina).

B. Statement of policy that Health Sciences Foundation should be self-supporting as soon as financially feasible.

C. Prohibitions of Donations to Health Sciences Foundation from any University Account effective January 15, 1981.

VIII. USE OF FEDERAL FUNDS

A. Emphasis placed upon more and better documentation of purchases.

B. Clarification from Ms. Seltzer on Federal Capitation Uses.

C. System change to commit rather than expend dollars for renovation in "W" Account; would trace unused federal dollars; implemented by July 1, 1981.

D. Corrected administrative error of capitation grant related income on binder sale in Pharmacy. (Effective January, 1981)

E. Implemented new effort reporting system in July, 1980 - Have requested review of this system from Department of Health and Human Services.

IX. INTERNAL CONTROL

A. Modified system and procedures to limit access to vendor files and provide verification of vendor addresses in Accounts Payable in 1977.

APPENDIX II

B. Have requested State Auditor to review current policies in Accounts Payable. (the Medical University of South Carolina is awaiting comments).

APPENDIX III

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

20 FEB 1981

Mr. Gregory J. Ahart
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Better Accountability Needed at the Medical University of South Carolina." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Bryan Mitchell
Bryan B. Mitchell
Acting Inspector General

Enclosure

APPENDIX III

The University has been aware of reported serious deficiencies in many of its operations since at least 1972--having been advised of them by its independent public accountant, its own internal audit staff, the State auditor, the State Legislative Council, the State Bureau of Drug Control, and this Department. There is little or no indication that the task of correcting these conditions has been adequately addressed by the University. Even though Federal funds only represent approximately 10% of the total funds expended by the University, we believe in view of the dollar amount ($10,300,000 in Fiscal Year 1979), it is most important, and in the interest of all concerned, that the University take steps to install as soon as possible and on a scheduled basis, strictly adhered to, a strong and comprehensive internal control system (possibly including basic systems).

As indicated in our responses to GAO's recommendations detailed below, the Department is taking prompt action to review the deficiencies cited and any other possible problems at the University as a preliminary step towards rectifying situations in which Federal funds may have been inappropriately handled.

GAO Recommendation: That the Secretary of HHS make any further Federal funding contingent upon a satisfactory showing by the University that corrective actions have been taken to ensure that internal controls are adequate to ensure proper accountability. Further that the Secretary determine whether or not recovery should be made for that portion of the equipment which (1) was purchased without Federal approval, (2) cannot be located, (3) is not being used, and (4) is being used outside of the grant-supported area.

Department Comment: We concur that further Federal funding should be made contingent upon a satisfactory showing by the University that corrective actions have been or will be taken on a more than expeditious basis to ensure satisfactory operating internal controls. We will also review the situation concerning equipment and act to recover any Federal funds that were inappropriately used for these purposes. Department representatives are starting on this work promptly and are planning to visit the University shortly to initiate a careful review of these matters on site. The nature and timing of actions to be taken will depend on the information developed during this site visit, including a detailed assessment of the actions already taken, if any, by the University with respect to the issues in question.

OFFICE OF THE PRESIDENT
(803) 792-2211

Medical University of South Carolina
171 ASHLEY AVENUE / CHARLESTON, SOUTH CAROLINA 29403

February 20, 1981

Mr. Donald L. Scantlebury, Director
Accounting and Financial Management Division
Room 6001
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

It was our pleasure to meet with Mr. Campbell and Mr. Patterson of the GAO yesterday to review the draft of the GAO Audit Report on the Medical University of South Carolina.

During that meeting, all remaining differences of opinion about the facts were resolved. We believe the current draft accurately reflects the results of the audit findings.

Your report includes corrective actions and planned corrective actions to criticisms raised in the Legislative Audit Council Report, the State Reorganization Commission Report, and the GAO Report.

In the area of entertainment related expenditures, we have revised our policies and implemented several new control procedures. We will continue to work with the State Auditor and the State Reorganization Commission to clarify the perquisite question raised in your report.

A new property management system will be in place by February 28, 1981. The University completed a physical inventory of equipment on December 31, 1980. The results of that inventory will be reconciled by February 28, 1981. This new system, coupled with biannual physical inventories, will correct the problems related to property management.

A new internal audit program and reporting arrangement were authorized by the Board of Trustees on February 13, 1981, which will strengthen the management of the institution. The Board also created three Vice-Presidential positions; one for finance, one for administration, and one for clinical affairs. These positions will allow a much closer level of supervision than has existed in the past.

"An equal opportunity/affirmative action employer"

APPENDIX IV

Donald L. Scantlebury, Director
Page Two
February 20, 1981

Medical University of South Carolina

We appreciate the opportunity to comment on this report and believe that the audit process of the GAO has resulted in a fair and accurate report.

Sincerely,

William H. Knisely, Ph.D.
President

WHK/egc

cc: Mr. Campbell, G.A.O., Washington
Mr. Patterson, G.A.O., Atlanta
Dr. Bradham, Secretary, Board of Trustees

(911018)